

AT&T tussles with T-Mobile over AWS-3 spectrum auction results

Fierce Wireless By Phil Goldstein

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BARCELONA, Spain--AT&T Mobility ([NYSE:T](#)) thinks T-Mobile US ([NYSE:TMUS](#)) should stop complaining about the results of the AWS-3 spectrum auction and that companies like AT&T that walked away with large spectrum holdings bid market prices for them--more than T-Mobile was willing to spend.

Joan Marsh, AT&T's vice president of federal regulatory, responded to a blog post last month from T-Mobile CEO John Legere, who wrote that while the AWS-3 auction was a record-setting financial success for the U.S. Treasury it was a "disaster for American wireless consumers" because, he said, AT&T and Verizon Wireless ([NYSE: VZ](#)) won the lion's share of the spectrum (Dish Network's ([NASDAQ Q: DISH](#)) bidding partners also won a major chunk of AWS-3 spectrum).

T-Mobile paid \$1.77 billion for 151 licenses in the AWS-3 auction to fill out its mid-band spectrum portfolio. AT&T spent \$18.2 billion for 251 AWS-3 licenses it says cover 96 percent of the U.S. population. Verizon spent \$10.4 billion for 181 AWS-3 licenses in markets covering 192 million POPs, or 61 percent of the United States. Dish's bidding entities paid \$13.3 billion for 702 licenses, winning 25 MHz of spectrum in total including 13 MHz of paired spectrum. However, Dish's designated entities also qualified for around \$3.3 billion in bidding discounts, taking the total cost down to \$10 billion.

Marsh wrote that the auction reallocated 50 MHz of "valuable paired spectrum to the wireless industry--an allocation that T-Mobile itself has long advocated for." She also wrote that the spectrum is internationally harmonized and is already being standardized "so it can be efficiently deployed to bring substantial additional data capacity to U.S. wireless consumers." And, she wrote, the auction proceeds "will fully fund [FirstNet](#) , so the country will finally realize the promise of an interoperable public safety broadband network. These are all wins for the FCC, the wireless industry and the American public."

Marsh noted an analysis of the bidding results shows the in some of the early rounds, T-Mobile had as much as \$3.5 billion in capital "on the table" and that "from a strategic perspective, one

can surmise that T-Mobile came to the auction with a \$3.5 [billion] budget but, as valuations rose, decided to take some of its capital off the table, which was certainly its prerogative to do. But you can't withdraw capital from the auction then complain that you didn't win."

"Spectrum auctions are capital intensive. Period. You can't win if you don't bring capital and stand prepared to use it," she noted. "The fact is that the [Dish designated entities \(DEs\)](#) outbid T-Mobile over 6 to 1 in the auction (5 to 1 if you factor in the DE subsidies). And T-Mobile took close to \$2B off the auction table."

The AWS-3 auction had 70 qualified bidders all vying for 65 MHz of spectrum, Marsh noted, and it delivered gross provisional winning bids of \$44.9 billion and net proceeds of \$41.329 billion. "Even setting aside Dish's unusual bidding construct, auction competition was going to be fierce anyway you cut it," Marsh wrote. "T-Mobile is a big proponent of competition unless they are facing it in an auction--there they prefer protection."

"Ignoring the competitive dynamics in the auction, T-Mobile alleges in its blog that AT&T and Verizon showed that they will 'dig into their deep pockets' to buy spectrum 'at nearly any cost,'" she wrote. "But we didn't set the prices at auction--the auction competition did. And we paid for the [10x10] MHz footprint we acquired exactly what the auction competition required us to pay--no more and no less."

In fact, Marsh wrote, Dish's designated entities, Northstar Wireless and SNR Wireless, were T-Mobile's biggest competitors in the auction. She wrote that bidding patterns in the auction suggest that T-Mobile was primarily interested in the 5x5 MHz G Block, and the carrier bid aggressively for it in major markets like Chicago, Seattle and Denver. "But, in the end, they lost those blocks and the majority of the G Block in the top 100 CMAs to the Dish Des," she wrote. "This is probably the lesson T-Mobile most wants to avoid. Indeed, it couldn't even bring itself to identify Dish by name in its blog."

Marsh wrote that AT&T conducted an analysis of winning bids and who the winning bidder bid off to take the license, which showed that Dish outbid T-Mobile on 132 licenses to win the license. (AT&T outbid T-Mobile on 26 licenses and Verizon did so 16, Marsh wrote.) "Even of the 151 licenses T-Mobile won, T-Mobile had to outbid Dish on 69 of those licenses to succeed (compared to AT&T on 12 and Verizon on 32)," she added. "AT&T and Verizon weren't T-Mobile's competitive nemesis in the auction--Dish was. And the 600 MHz reserve won't protect T-Mobile from Dish, or Sprint ([NYSE: S](#)) or Google ([NASDAQ: GOOG](#)), or any other

player not named AT&T or Verizon that comes with capital to win spectrum."

"In the end, Dish--a company with less revenue than T-Mobile and no wireless subs--showed up with a \$10B budget (which it turned into \$13B in spending power with the taxpayer's help) and simply ran T-Mobile out of much of what it wanted," she wrote. "And you can't blame that on us."

Marsh also wrote that the FCC should rethink its policies on designated entities and design them to help actual small carriers like Bluegrass Wireless and not "DE-centric shell corporations formed in the months leading up to the auction," like a reference to Dish's designate entities partners. Marsh wrote that in the auction, these types of small non-DE bidders won 74 licenses, but that to win "they primarily had to outbid other DEs (Dish DEs 28 times; other DEs 22). Dish or another DE outbid these entities to win licenses 72 times (Dish 42; other DEs 30). Given these results, perhaps we need to not only revisit who the DE rules really benefitted in this auction, but also take a look at how the DE rules may have hampered small facilities-based competitors."

T-Mobile said AT&T and Verizon used the auction to shore up their spectrum position and that the results should push the FCC to set aside more spectrum for smaller carriers in next year's planned incentive auction of 600 MHz broadcast TV spectrum. T-Mobile, along with a coalition of public interest groups, has urged the FCC to set aside at least 40 MHz of reserved spectrum for smaller carriers without a great deal of low-band spectrum to bid on.

"It is an undeniable fact that in Auction 97 AT&T and Verizon's deep pockets enabled them to win 63% of all paired AWS-3 spectrum, or roughly 91% of the value of all the spectrum won by wireless carriers in that auction," Andy Levin, T-Mobile's senior vice president of government affairs, said in a statement. "They have the incentive and the ability to foreclose smaller carriers from spectrum auctions, and the last auction results clearly demonstrate that. Considering Verizon and AT&T also currently control 73% of the nation's low-band spectrum, a similar outcome at next year's Incentive Auction would be a disaster for competition and innovation in mobile broadband."

In an interview with *FierceWireless* here at the Mobile World Congress conference, T-Mobile CTO Neville Ray defended the carrier's AWS-3 auction strategy. "We always said we were going to spend an appropriate amount of money, which we thought was the right thing for T-Mobile to go do, and that's what we did," he said. "We looked at the prices as the auction

proceeded, and we stayed where we thought we should be for our business needs at this point in time.

Ray added: "Clearly, it was a complex auction and there were new entrants in the auction process that played a formidable role, primarily in Dish and their other DE structures."

Marsh wrote the reserve rules "have been designed for the benefit of Deutsche Telekom/T-Mobile and Softbank/Sprint, even as Deutsche Telekom [touts a 2014 spend](#) of €9.5 billion (\$10.48 billion) in Europe (before expenses for mobile spectrum) which is expected to increase going forward. But the set asides will also protect Dish, who's proven it can bring serious financial resources to an auction and win significant allocations without restrictions."

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